

Indiana University Textbook Pricing Analysis

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Textbook Pricing Analysis (May, 2009)

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Introduction

The purpose of this analysis is to provide my thoughts on the target price for e-textbooks. Ideally, we will want to reduce the price actually paid by our students in a meaningful way. Providing an easy to use system for books at meaningful price reduction is important in the initial years as students will remember the alternative. As time passes, students will graduate and eventually current students will have no memory of the old paper textbooks. The reduced price will become the norm, and the focus will be on ease of use and functionality, not the low price. So in the eventual tug of war between low cost and functionality, I believe it is important to balance both desires, not just to focus exclusively on price.

Overview

I've done a textbook pricing analysis using a set of 22 books chosen from around campus. These include the three books we will use in the fall pilot, plus books from Biology, Business, Chemistry, English, Folklore, Geology, Linguistics, Mathematics, Psychology, Statistics, and Sociology. I selected courses from the top 20 most popular courses and also major courses. The selection was constrained by which books are actually in use now and books that bookstores are willing to buy back today. Since new editions are released every three years, about 1/3 of the books sold to students today will not be bought back. The attached spreadsheet shows the courses, the books and prices to buy and sell.

There are two types of students in this analysis, those who buy a textbook and keep it, and those who buy it and sell it back. Of course, some students never buy a book – whether because they can't afford it, or because they just don't want the book. These students are excluded from this analysis.

The cost to buy and keep a book

The typical cost to buy a textbook and keep it is 74% of list price if you buy a used book at the IU bookstore and 64% of list price if you buy a used book on the Web (e.g., textbooks.com). See the attached spreadsheet. When a new edition is released (typically every three years), no used books are available, so students must pay essentially the full list price. Publishers are moving to a two year cycle for high selling books so this problem is getting worse.

The cost to buy and sell back a book

The cost to buy and sell back a book is more difficult to determine because not all students who want to sell back a book can actually sell it. The IU bookstore has a quota: it only buys back 25-33% of the books it sells to IU students, and it never buys back books once a new edition is announced (every three years), so about 25% students can sell their books back. Web bookstores have similar quotas, although some do buy books back at deeply discounted prices (5% of list price after shipping costs).

Therefore:

- For the 25% of students who can buy a used book and sell it back, the typical cost is 40% of list price if you buy and sell at the IU bookstore and 39% of list price (after shipping costs) if you use the Web (e.g., textbooks.com). The attached spreadsheet shows the prices. Students cannot arbitrage by buying a used book on the Web and selling to the IU Bookstore, because the IU Bookstore only buys back books it sells (it puts a new ISBN on each used book it sells so it can track them).
- For the 75% of students who can't buy and sell back a used book at a reasonable price, my estimate is that the typical cost is about 65% of the list price.

Conclusions for pricing e-textbooks

There are at least two ways to approach the pricing decision for e-textbooks.

- One is to provide e-textbooks that never expire with no digital rights management (DRM). In this case, then we need to provide a noticeably lower price than the buy and keep price of 65% of list to have our students better off.
- The other approach is to provide e-textbooks that expire and thus have DRM. In this case, 75% of our students will be better off if we beat 65%, but the other 25% will only be better off if we beat a price of about 40% of list.

My opinion is that providing e-textbooks without DRM that never expire is best for our students. This takes a longer term view that functionality will ultimately be more important than the price. Of course, students might disagree; bookstores have quotas for buying back text books, which means that more students want to sell books back than bookstores want to buy. So even if we go the never expire route, we need to be cognizant of the students who don't value keeping their books.

My judgment is that a target price for an e-textbook that does not expire and has no DRM should be about 40% of list price. Most students would be noticeably better off because we have cut the actual price they pay by about 40%. Even the 25% of students who would be able to buy and sell back a book are not worse off economically and yet get to keep their book.

Bookstore buyer who sells book in good condition at end of semester

First Edition Buyer

Early Seller	\$	54.11	50% of List Price
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Late Seller	\$	102.80	95% of List Price
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Last Edition Buyer	\$	79.85	74% of List Price
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Mid-Edition Buyer

Early Seller	\$	43.26	40% of List Price
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Late Seller	\$	74.44	69% of List Price
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Average Cost over all four types of buyers	\$	50.47	47% of List Price
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Web Buyer who sells book in good condition at end of semester

	\$	43.97	41% of List Price
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(best possible case scenario omitting first and last editions and assuming early sale)

Typical Cost to Buy and Keep a Used Book

Bookstore Buyer	\$	79.85	74% of List Price
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Web Buyer	\$	69.42	64% of List Price
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(omitting first editions)

Assumptions

3 years to an edition	How many years between new editions
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60% Buyback quota	What percent of used books the campus bookstore will buy
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5% Out of quota Price	Price for a book (% of list) after quota is reached
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\$ 108 Average list price	Average price of a book in the analysis
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\$ 5 Cost to ship buy-back	How much it costs to ship a book when sold back on the Web
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Course	ISBN	Author	Pub	List	IU Bookstore			Texbooks.com		
					Price	Price	Price	Price	Price	Price
					98%	74%	34%	89%	64%	28%
					New	Used	Buy-back	New	Used	Buy-back
BIO M255	978-0073522548	BROWN	McGraw	93.00	93.00	69.75	34.75	93.00	62.25	20.40
BUS F303	978-0073405179	Bodie	McGraw	178.00	178.00	133.50	45.00	178.00	133.50	54.00
BUS K210	978-1423906056	GROSS	CENGAGE	96.75	96.65	72.50	45.00	84.00	64.75	25.85
BUS S305	978-0470055755	Fitzgerald	Wiley	155.00	122.65	92.00	38.00	126.25	80.00	47.50
BUS S307	978-0136003915	Hoffer	Pearson	171.00	170.70	128.05	58.00	148.50	114.25	66.25
BUS S310	978-0470074787	Dennis	Wiley	142.00	140.00	105.00	37.00	115.75	79.25	44.75
Chem C341	978-0073327495	Smith	McGraw	204.00	204.00	153.00	76.50	153.00	122.25	69.60
Chem C341	978-0073049878	Smith	McGraw	109.00	108.65	81.50	40.75	108.00	78.00	24.00
Chem M117	978-0495112532	MOORE	CENGAGE	72.75	72.65	54.50	27.25	72.75	48.50	12.00
Chem M117	978-0495112549	MOORE	CENGAGE	72.75	72.65	54.50	27.25	72.75	48.50	8.40
Chem M117	978-0495105213	MOORE	CENGAGE	205.50	205.36	154.00	77.00	154.00	123.00	70.00
ENG W131	978-1413033106	ROSENWAS	CENGAGE	58.75	58.65	44.00	18.00	59.75	39.25	22.50
ENG W131	978-0312451653	GREENE	McGraw	68.75	68.65	51.50	25.75	59.75	46.00	20.90
FOLK F101	978-0874216110	Sims	UCP	26.95	26.95	20.20	10.00	26.95	14.85	7.05
GEO G107	978-0470095720	Strahler	WILEY	93.50	93.35	70.00	22.00	73.75	62.50	27.50
Ling L103	978-0814251638	Ohio St	UCP	42.95	42.95	32.20	16.00	42.95	28.75	17.50
Math M118	978-0073196602	MAKI	McGraw	129.00	129.00	96.75	48.25	129	82.25	12.30
Stat S100	978-1429237024	MOORE	McGraw	92.00	92.00	69.00	34.50	92.00	64.00	36.25
SOC S101	978-0767410700	ARUM	McGraw	87.75	87.86	65.75	32.75	72.25	43.75	20.00
SOC S201	978-0132433396	MACIONIS	PEARSON	106.00	105.35	79.00	32.00	70.50	70.50	40.00
PSY P101	978-0495031505	NAIRNE	CENGAGE	137.50	137.35	103.00	*	138	103.00	32.00
PSY P101	978-0495031550	NAIRNE	CENGAGE	59.00	59.00	44.25	*	59.00	29.50	16.00
SOC S110	978-0205394845	Carter	PEARSON	87.00	83.60	62.70	*	83.60	58.00	5.50

* IU Bookstore would not buy back so this book is excluded from the analysis